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HALLGARTEN & COMPANY

Initiating Coverage

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Harte Gold (TSX: HRT, OTC:HRTFF, FSE: H4O)
Strategy: LONG

Key Metrics			
Price (CAD)	$ 0.195		
12-Month Target Price (CAD)	$ 0.38		
Upside to Target	95%		
High-low (12 mth)	$0.04 - $0.345		
Market Cap (CAD mn)	$ 60.4		
Shares Outstanding (millions)	309.6		
Fully diluted	372.1		
	2015	**2016e**	**2017e**
Consensus EPS		n/a	n/a
Hallgarten EPS		$0.012	$0.023
Actual EPS	($0.006)		
P/E	n/a	16.3	8.5

Harte Gold

The Sweet Smell of Production

- ✚ Production has started up in recent weeks at the Sugar Zone project
- ✚ A "productive" bulk sampling strategy (yielding an estimated 25,000 ozs) is seen as the means to produce revenues while evolving the "mine"
- ✚ Initial capex is the $20mn cost of the bulk sample
- ✚ An estimated cash cost of CAD$600 per oz make the economics are very attractive at the current gold price
- ✚ Recent financings have bolstered the balance sheet and propelled the stock significantly higher
- ✖ The financing environment continues to be challenging, though production stories are faring better than purely exploration plays
- ✖ The resource is not massive and needs expanding to ensure a long mine life

Sweet Smell of the Sugar Zone

Harte Gold is focused on the exploration and development of its 100% owned Sugar Zone property and is currently permitting an advanced exploration program for the Sugar Zone Deposit. The Sugar Zone Property is located in Ontario, approximately 60 km east of the Hemlo area gold mines, 25 km north of White River off the Trans-Canada Highway (#17). The property can be accessed via a series of logging roads and drill trails extending north from the community of White River.

Background

Exploration for gold and base metals has been performed on the Property since 1969. This historic information is drawn heavily from Sharpstone's 2010 NI 43-101 Report and is summarized below:

The original focus in 1969 was base metals when Canex Aerial Exploration Ltd. drilled three diamond drillholes in the vicinity of the mafic/ultramafic intrusives and flows near the north end of Dayohessarah Lake. Results include an intersection of 0.326%

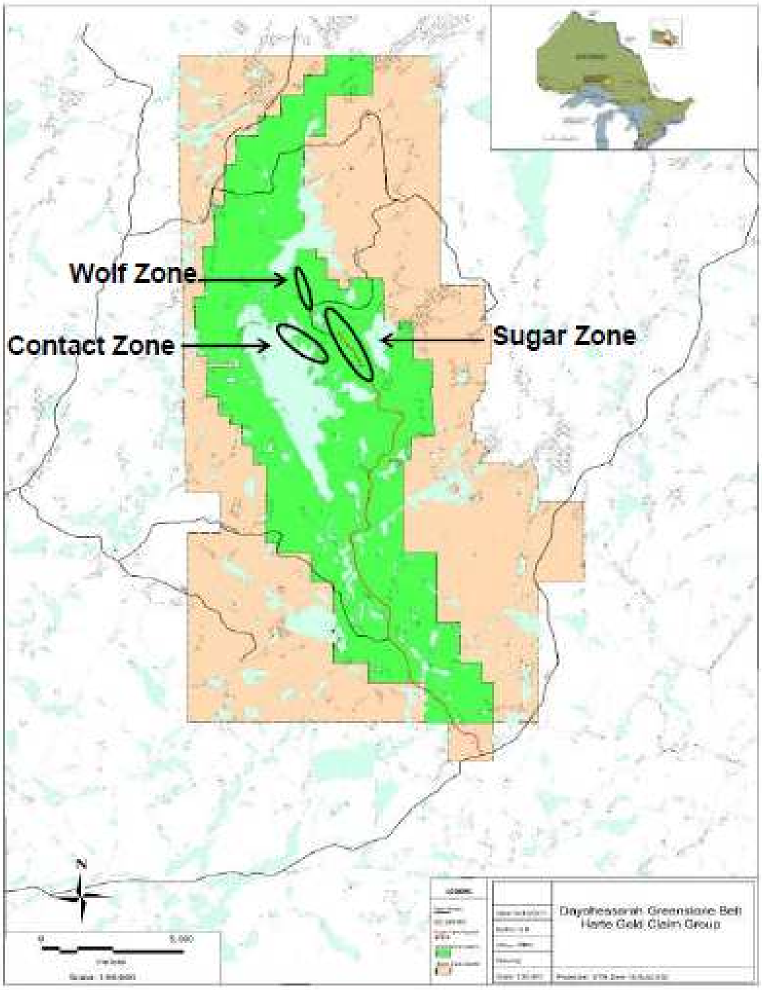
Ni and 0.08% Cu over 5 ft. in metagabbroic rocks.

In the intervening decades the main explorers were Hemlo Gold and Corona Gold conducting various campaigns with the primarily focus, understandably, being gold.

It was in 2010 that Harte Gold initiated its first drilling program. During March, a diamond drill program totaling 2,097m in 12 holes, two of which were aborted before reaching the Sugar Zone. The program was successful in locating a high grade area of the Sugar Zone located near surface and directly under a series of surface trenches. The drill program was also successful in determining that the Sugar Zone has significant mineralization below 300 m depth.

Geology

The Dayohessarah Greenstone Belt is situated between two larger greenstone belts; the Hemlo Greenstone Belt to the west and the Kabinakagami Greenstone Belt to the east. The belt is approximately 36 km in length and varies in width from 1.5 km to 5.5 km. Principal lithologies in the belt are moderately to highly deformed metamorphosed volcanics, volcanoclastics and sediments that have been enclosed and intruded by tonalitic to granodioritic quartz-porphyry plutons.



The belt has been strongly foliated, flattened and strained. Deformation seen in the supracrustal rocks has been interpreted to be related to the emplacement of the Strickland Pluton. The strain fabric is best observed a few hundred meters from the Strickland Pluton in the Sugar Zone, which has been characterized as the most severely strained part of the belt. The Sugar Zone is defined by sets of parallel mineralized quartz veining, quartz flooding of strongly altered wallrock, thin intermediate porphyry lenses and dykes/sills parallel to stratigraphy and foliation, and gold mineralization.

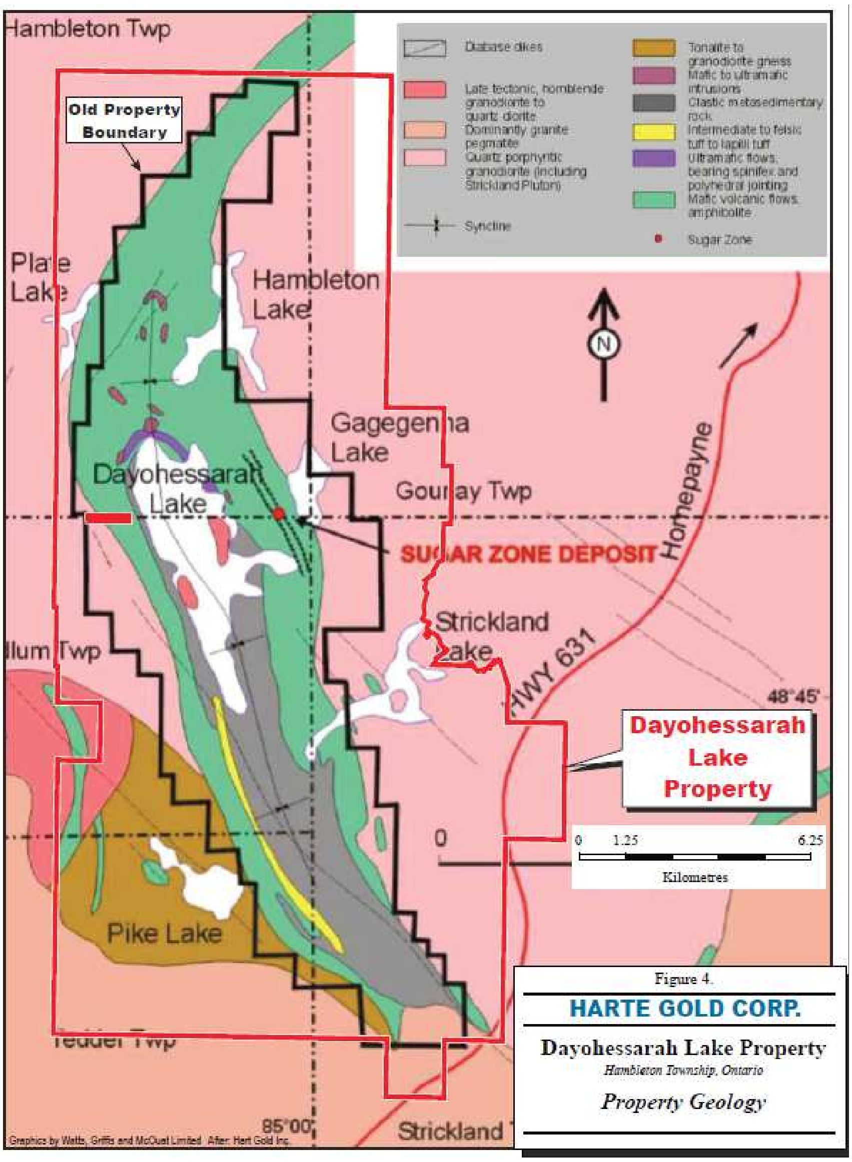
Near Dayohessarah Lake, the belt is dominated by a basal sequence of massive to pillowed mafic volcanics. Several fine to medium grained, intermediate feldspar porphyry dykes/sills have intruded and swarmed the belt. Swarming of the intermediate porphyry dykes is more intense east of Dayohessarah Lake. These intermediate dykes/sills vary in abundance across the property, but increase in regularity within, and around, the Sugar Zone.

There are three main targets for Harte, these are:

- Sugar Zone is a high-grade 500,000 oz gold deposit open at depth and on strike, gold mineralization extends to 1,000m depth, target >1mn oz. Drilling in 2015 extended strike length from 800m to 1,100m. Discovery of Footwall Zone confirms parallel zone potential

- Wolf Zone is a 2010 discovery with 9.5 g/t over 7.5m, including high-grade core of 22.9 g/t over 3m. Subsequent drilling extended mineralization at depth and on strike

- Contact Zone is more formative with an IP/Mag survey in 2014 identifying mafic volcanic/ sedimentary contact. Drilling in 2015 confirmed the Hemlo setting, pathfinder elements and gold values



The map at the right shows the old property boundary (in black) and the newer one (in red). This represents nearly a doubling in territory.

Resource

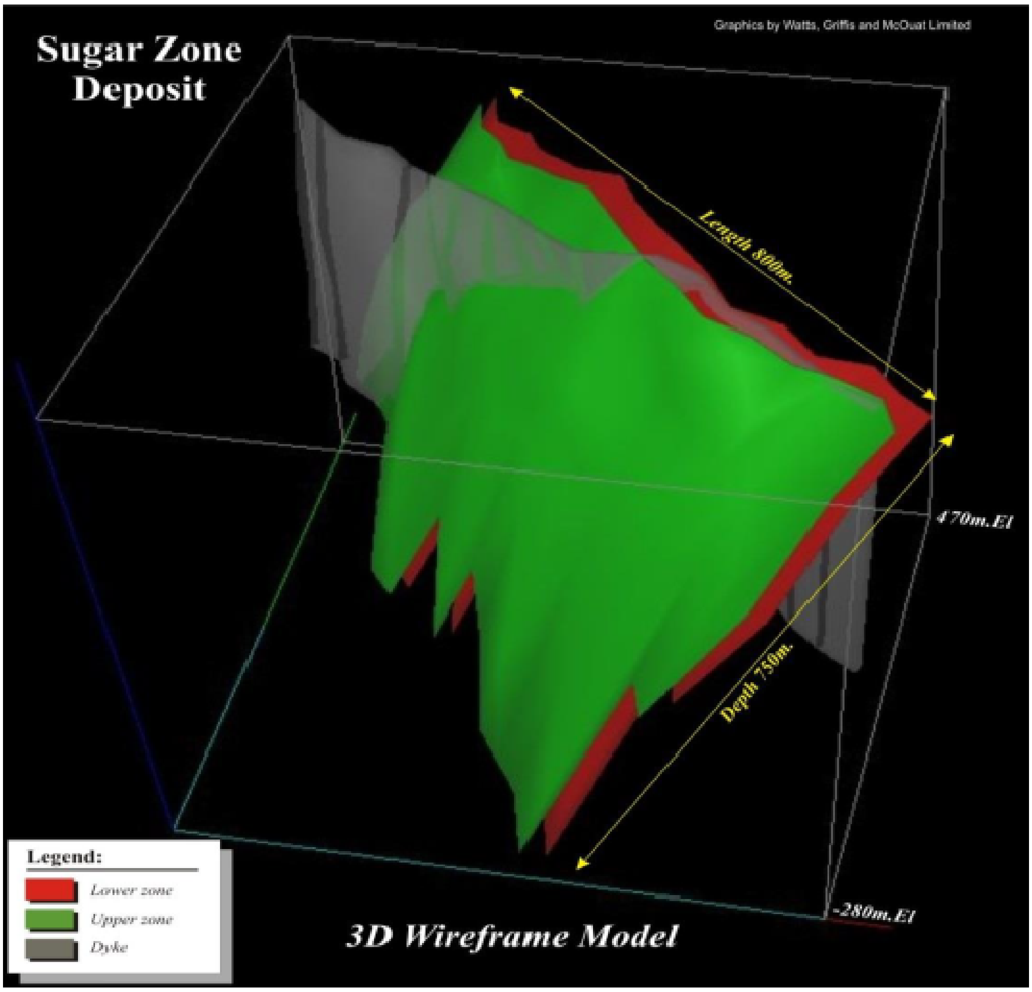
As per the NI 43-101 compliant Preliminary Economic Assessment dated July 12, 2012 the Sugar Zone deposit contains an Indicated Resource of

980,900 tonnes, grading 10.13 g/t for 319,280 ounces of contained gold (uncapped) and an Inferred Resource of 580,500 tonnes, grading 8.36 g/t Au for 155,960 ounces of contained gold (uncapped). The capped ounces are shown in the resource below:

Resource Estimate

Category	Tonnes	Au (g/t) Uncapped	Ounces Au Uncapped	Au (g/t) Capped	OuncesAu Capped
Indicated	980,900	10.13	319,300	8.72	275,000
Inferred	580,500	8.36	156,000	7.03	131,300

The PEA was prepared by prepared by Nordpro Mine and Management Services. George A. Flach P. Geo, Vice President Exploration is the Qualified Person for Harte Gold.



The mineralisation is in a constant state of expansion as exploration continues. In the winter 2015 drill programs the Sugar Zone Deposit strike length was extended by 300m to 1,100m in total. A discovered new parallel mineralized zone was discovered and the Wolf Zone Deposit was extended down plunge and on-strike.

The Road to Production

The key to the current strategy is the extraction of a 70,000 tonne Bulk Sample which should yield approximately 25,000oz Au. The company is calling this an Advanced Exploration & Bulk Sampling Program (AEBSP). This will essentially be the "production you are having when you are not having production".

To this end the company signed a Heads of Agreement for a Fixed Price mining contract has been signed with Technica Mining in the middle of last year. Technica agreed to perform the work at a cost of $20mn, with cost reimbursement of $15mn, through the duration of the contract and the balance payable in cash or common shares of Harte Gold, as determined on completion of the contract.

Year	Mined P/A	Au Grade
	Tonnes	g/t
1	270,000	8.1
2	270,000	8.1
3	270,000	8.1
4	270,000	8.1
5	270,000	8.1
6	270,000	8.1
TOTAL	1,620,000	8.1

The 2015 PEA envisioned production rates as shown in the chart to the right. Whether these will be guidance for the current operation is not clear but certainly the numbers are useful as an indication.

Deals with Barrick & Others

In mid-2015, Barrick Gold and Harte inked a Letter of Intent to process the 70,000 tonne Sugar Zone Bulk Sample at the nearby Hemlo Mill with the final Agreement expected to be signed by the end of August. The Hemlo Mill is a standard grind, leach and carbon-in-pulp extraction mill. This will involve transport over 60 kms.

The company also entered into a crushing and hauling contract with White River-based Kabi Lake and its joint venture partner Pic Mobert to transport the 70,000 tonnes of ore to be mined under the Bulk Sample to Barrick's Hemlo Mill.

Commencement of Work

Technica Mining mobilized personnel and equipment to site shortly thereafter. The approach to the Portal face was excavated and the screening and bolting of the face together with surface work to support underground mining were completed. The first blast to cut the Portal (shown on the following page) and go underground occurred in the middle of third quarter of 2015.

The optimized mine plan will accelerate the AEBSP production schedule and shorten project timelines. Recently completed in-fill drilling in the Bulk Sample area and in two previously drilled areas of gold mineralization parallel to the proposed ramp have been added into a new mine plan with a view to optimizing mining operations and accelerating project timelines. The bulk sample is already permitted.

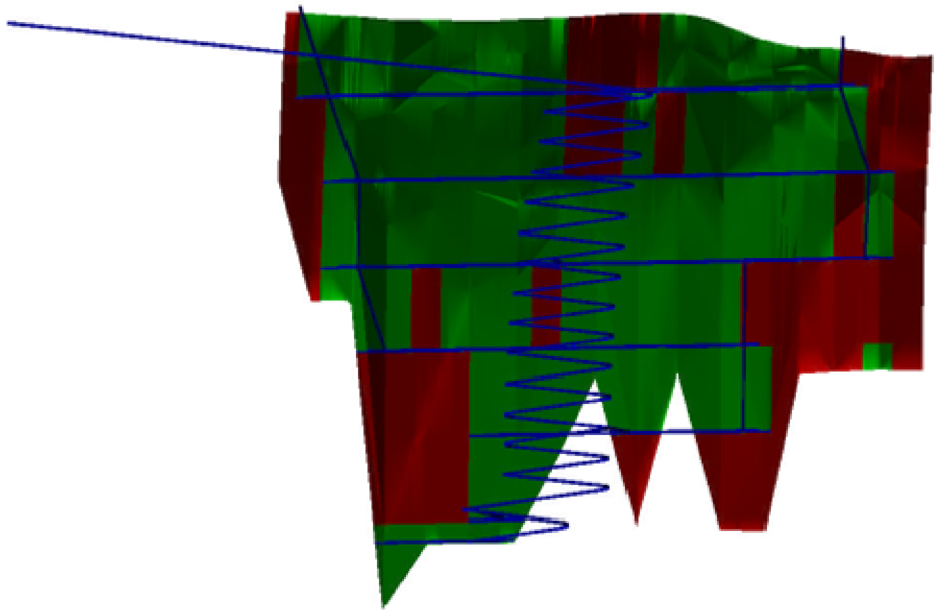
The company expects the bulk sample to make money which will be re-invested in commercial permitting and exploration drilling below the Sugar Zone Deposit and along the 2 km distance between the Sugar Zone and Wolf Zone.

Mining

In the opinion of the 2015 PEA, the Sugar Zone geometry and mineralized zone thicknesses of approximately three metres indicates a selective and lower volume mining method should be employed. The dip of the mineralized zones is approximately 70 degrees and fairly regular on strike, which means that a narrow longhole mining and shrinkage mining methods with backfill might be utilized.

The Sugar Zone would be mined at a planned production rate of 750 tonnes per day of potentially economic mineralization or 270,000 tonnes per year. The mine would be accessed by a main access ramp from surface to facilitate movement of equipment, rock, manpower and materials to and from the mine.

Levels (see underground crossection below) would be developed from the ramp at approximately 30 metre vertical intervals. Each level would be developed with an access from the ramp to the mineralized zone and a FW drift located in waste, over the entire length of the mineralized zone to be mined. All potentially economic mineralization would be loaded on to underground haul trucks and trucked in the ramp, to surface. The current plans go to a depth of 650 metres.



The mining methods would be Long-hole and Shrinkage mining with hydraulic backfill. All underground maintenance and associated services facilities would be located midway of the vertical extent of the known potentially economic mineralized zone. Ventilation would utilize raises at each extremity of the mineralized zones being mined for fresh or return air and the ramp as an exhaust for return air, with a push-pull ventilation arrangement.

CapEx

Financial assumptions in the 2012 PEA have been superseded by adverse price action in the commodities and resultant downward revision of all costs, the company moved the site to an area roughly mid-point of the deposit, which is smaller than previous and much less expensive to develop.

The capex as envisioned in the 2015 PEA was as follows:

CapEx - Sugar Zone	CAD $ mns
Permitting	$0.800
Mine	$30.610
Processing Plant & Tailings Management	$45.873
Surface Infrastructure & Mobile Equipment	$28.511
EPCM, Contractor O/H & Owners Costs	$2.889
Total Capital Expenditures	$108.000
Working Capital	$10.059
TOTAL EXPENDITURES	$118.059

Harte Gold plans to update the PEA the second half of 2016. CapEx is more likely going to be around $25 - $30mn, consisting of a gravity mill (without a cyanide circuit), tailings (benign) facility and running hydro-sourced power to site.

Economics

The PEA from the first half of 2015 estimated total average operating cost (excluding smelting and refining) for the mine as approximately CAD$145 per tonne of potentially economic mineralization (of which $100 per tonne was mining and $7 was royalty).

The company believes that normalized operating costs under commercial production are expected to be less than CAD$600 per ounce.

The most recent PEA forecast the economics of the project as:

Sugar Zone Economics @$1,490 Au	Pre-tax	Post-tax
Undiscounted Net Revenue	$577mn	$577mn
Undiscounted Cashflow	$204mn	$142mn
NPV (5%)	$137mn	$92mn
NPV (10%)	$91mn	$58mn
IRR	35%	28%
Payback Period	2.5 yrs	2.5yrs

However, this study used an average trailing two-year gold price from the time that report was written. As we know gold has reset somewhat lower since then. In any case the company has changed strategy since that time and struck up its arrangement with Barrick for processing. Hence this information is interesting but probably quite different from the result that likely to emanate from the updated PEA targeted for later this year.

Stoughton Abitibi

The company's second target is the Stoughton-Abitibi property located on the Destor-Porcupine Fault Zone, some 110 kms east of Timmins, Ontario. The property covers approximately 2,500 hectares. The Destor-Porcupine Fault has produced over 100 million gold ounces from this prolific regional structure.

It is directly adjacent to, and on strike of, Saint Andrew Goldfields' Holloway Gold Mine (2 mn ounces Au) and its high-grade Thunder and Smoke Deep discoveries. Kirkland Lake (KGI.to) recently took over Saint Andrew Goldfields.

Recent Financing

In October of last year the company raised $2.3mn through a non-brokered private placement of up to 28,000,000 Units priced at $0.05 per unit and 15,000,000 Flow-Through Units priced at $0.06 per flowthrough unit. Insider participation was $505,000 which included a financing back-stop order of $500,000 from the company's CEO, Stephen Roman.

Each flowthrough unit consists of one common share and one-quarter common share purchase warrant. Each full warrant is exercisable at $0.15 for eighteen months from closing. Should the price of the common shares on the TSX be equal to or greater than $0.20 for 10 consecutive trading days any time after closing, the company may accelerate the expiry date of the warrants.

In late March 2016 the company announced it has raised gross proceeds of $2.5mn pursuant to the closing of a non-brokered Secured Note Offering comprised of two hundred and fifty Units priced at $10,000 each for gross proceeds of $2.5mn. These units consist of a two-year $10,000 Secured Note with a 15% annual coupon and 40,000 common share purchase warrants exercisable at $0.15 for a period of two years from closing.

It also undertook in late March a flowthrough financing via which it raised gross proceeds of $650,000 through the issuance of 3,250,000 Units at $0.20 per unit (consisting of one flowthrough common share and one-half common share purchase warrant exercisable at $0.25 for a period of two years from closing. This is part of a larger issue of up to 10,000,000 Flowthrough Units for gross proceeds of up to $2mn.

The last deal, coinciding as it did with the onset of production gave a major kicker to the stock price with its more than doubling in a matter of days.

Directors & Management

The company obviously believes in slim-line management as the board is four-strong, in comparison to many of the more bloated boards around these days.

The Chairman, President & CEO is Stephen Roman who has been involved in the resource industry over the past 40 years. His past experience includes acting as a director and senior officer of Denison Mines, Lawson Mardon Group, and Zemex Corporation. He also worked to modernize Canada's Armed Forces in 1984/85 as Policy Adviser to the Minister of National Defense. In addition, he spearheaded the privatization of two major petrochemical companies in Central Europe and was appointed Chairman of Novácke Chemické Závody, a.s., in 2002.

In recent years, he has been involved in the financing and development of Gold Eagle Mines Ltd., Gabriel Resources Ltd., Verena Minerals Corporation (now Belo Sun Mining Corp.), Exall Energy Corporation, Polar Star Mining Corporation and Silvermet. He was the founder, Co-Chairman and Director of Gold Eagle Mines Ltd., which was acquired by Goldcorp Inc. for $1.5bn. He is currently Chairman, President & CEO of Harte Gold Corp. and Silvermet Inc. He was awarded the honour of "Prospector of the Year" for 2016.

George Flach is the Vice President Exploration. He has over 25 years in mineral exploration, instrumental in the discovery of several gold deposits and mines, including the 20 mn oz Tarkwa Mine, Ghana.

One of the non-executive directors is Derek Rance, who is a principal of Behre Dolbear, the global mining industry consultancy. His industry experience includes President and COO of Iron Ore Company of Canada and Mine Manager at the Dickenson Mine, Red Lake, Ontario.

Risks

The prime risks we can envision at this stage are:

- A protracted financing process
- Renewed gold price weakness
- Technical problems with the mine construction
- Budget overruns on the capex

The financing issue is the main one in our opinion. With money all else is solved. The company is well-padded for current requirements and its strategy of funding works through the bulk sample is a canny one. To accelerate the project will need financing but as production starts to be tallied, the potential to do a streaming deal is accentuated.

We are on record as not expecting a massive upsurge in gold. If production costs can be maintained at the company's projected CAD$600 per oz, then a higher gold price is not required for viability.

Technical problems and budget overruns are the responsibility of the contractor.

Conclusion

The trend towards small-scale mining (or as we are tending to call it "right-sized" mining) seems to be gaining traction. Bankers don't like it because it means smaller financings and less fees and consultants absolutely hate it because it means less mindless-drilling, wheel-spinning and production of useless tomes of BFS and DFS drivel. The group that does like it includes retail investors and us, while institutional investors find that, quite literally, they cannot get enough of these companies.

Production remains king and long lead times are death to a gold mining story. With the Canadian dollar in a good place versus the USD (well at least if you are a miner) and the gold price on the mend (in USD-terms) waiting around for consultants to get their acts together is a recipe for investor boredom. Harte have short-circuited that process and aim to be putting some "ounces on the table" in a limited time frame and to that end got their financing and engineering ducks in a row in 2015, with a view to delivering investors with output in 2016.

We rate Harte Gold with a **Long** position with a 12-month target price of CAD$0.38.

Important disclosures

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